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ABSTRACT

The issues, problems, and prospects of federal student aid are addressed in three papers and an introduction. In the introduction, David W. Breneman considers implications of the Middle Income Student Assistance Act and developments that raise questions about the foundation of student aid programs. In "Why Strains on Need-Based Financial Aid Are Increasing and Some Options for Relieving Them," Kenneth M. Deitch attempts to clarify some features of the overall system of pricing in higher education, of which the financial aid system is a crucial ingredient. It is suggested that having two major systems of need analysis operating at the same time is a source of current problems. In "How Good Is the Student Financial Aid System?" Martin A. Kramer considers the student aid system today, the vulnerability of aid programs, and four possible outcomes for student financial aid if financial conditions worsen. In "Premises of Student Assistance: It Isn't Time for a New Look," Marshall S. Smith suggests that the present federal system of student assistance is in pretty good shape and that there is enough student assistance in the aggregate to meet goals of student access. Strategies that may be used for creating a more equitable distribution system at the individual and institutional level are suggested. (SW)

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(3) PREMISES OF FEDERAL STUDENT ASSISTANCE

David W. Breneman
Kenneth M. Deitch
Martin Kramer
Marshall S. Smith

American Association for Higher Education

HE 013 211

The American Association for Higher Education

The American Association for Higher Education is a national association open to all individuals concerned about the value and effectiveness of higher education. Each year AAHE's National Conference on Higher Education brings together approximately 2,500 educational administrators, faculty, students, government and foundation officials, representatives from accrediting and testing agencies, and others, to clarify issues, disseminate effective educational practices, and discuss the future of higher education.

The theme of the 1979 National Conference was "The Academic Workforce: Opportunities for Renewal." Some of the papers prepared for presentation at the conference were selected by a review committee for publication in the annual conference series, *Current Issues in Higher Education*. Many of the papers in this series focus on the quality of worklife in academe and ways to improve it. In some cases, the papers have been revised by their authors and therefore differ somewhat from the actual conference presentation. They have not, however, been extensively edited or revised, since the purpose of the series is to disseminate the conference presentations as rapidly as possible. Points of view and opinions reflected in this series are those of the authors, not the Association.

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The Premises of Federal Student Assistance: Time For a New Look

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Introduction

By David W. Breneman

By way of introduction to this topic, I will share a personal vignette about how it came to be on the 1979 AAHE National Conference program and what I hope the following papers on this subject will accomplish.

In September 1977, I was asked by the Office of the Secretary of the Department of Health, Education, and Welfare (HEW) to prepare an overview paper on federal student aid and some of the issues that would be coming up in the legislative reauthorization now underway. The message of my paper was that the student aid programs then in place were conceptually and logically sound, that their grounding in a federal purpose was clean and understandable, and that the problems of student aid that appeared in the headlines from time to time were essentially administrative problems. I argued that these occasional problems did not require a deep rethinking of the program; they simply resulted from starting a vast new enterprise of federal activity in a very short time. (The programs, if you date from the Basic Opportunity Grants in 1972, were then five years old.) It was inevitable that such programs would give rise to administrative difficulties, I said; the reauthorization should concentrate simply on cleaning up those details. My point of view was, I think, shared at that time within the community. I do not think there was a sense of malaise about student aid programs.

Implications of the Middle Income Student Assistance Act

No sooner had the ink dried from my efforts than the country was caught by the whirlwind that started with the introduction of legislation to create a tuition tax credit and culminated months later with the enactment of the Middle Income Student Assistance Act. After watching and participating in the debates on this tangle of largely unanticipated and unexpected legislation, I began to think that some of the things I had written for HEW just a few months before were clearly off target.

First, the tuition-tax-credit proposal challenged the original assumption that federal student aid should be distributed on the basis of financial need by providing flat grants to families regardless of income. This proposal was clearly a challenge to the existing philosophy, and in fact, the Administration's initial hasty proposal to counter the tax credit accepted this new approach, for it would have provided a flat grant to people in the middle-

income category. Political support was shown to exist for a challenge to aid based on income.

Second, the process of developing needs analyses and the policies embodied in the needs-analysis systems, private and public, were suddenly elevated to a degree of visibility which they had hitherto not experienced. The effect of this attention, I think, was to take what had been a rather arcane art which nevertheless had an aura of legitimacy and scientific objectivity and show that it was ultimately based on arbitrary decisions. Anyone who watched the Congress jiggle the tax rate on discretionary net income (this week it was 10½ percent, next week 12 percent) knew that the era of "objective" needs analysis had ended. Furthermore, the discrepancies between the federal and the private systems were suddenly highlighted, and that served to reinforce the notion that the procedures for determining parental contributions were anything but scientific.

Third, the independent-student question was posed in sharp relief, and the upshot of the legislation was to raise questions about the validity of the assumption that parents could be relied upon for financial contribution to their children's education. There was a lot of discussion about the likelihood of student aid programs spurring young people to declare themselves independent of their families so that they could become eligible for student aid. The question of parental responsibility was raised; in fact, President John Silber of Boston University had argued in a then-recent article in *Atlantic Monthly* that we should recognize that the beneficiaries of college are the students and make it possible for them to pay for college themselves. All of these questions, which did not seem to be very important in 1977, were suddenly brought into focus by events in Washington.

Shortly afterward, in July 1978, I was invited to a Ford Foundation conference held at the Aspen Institute. Two of the authors of the following papers in this monograph were authors of papers at that conference. The purpose of the conference in Aspen was to raise further questions about the basis of our student aid programs. Arthur Marmaduke, Director of the California Student Aid Commission, posed the questions very sharply in his paper when he asked, "Who should decide what a parent can pay for a dependent student? Who should decide what self-help expectations there are for dependent students? Who should decide what independent students can pay? Who should decide who is self-supporting? Who should decide what are the appropriate costs of education to be included in student budgets?" The emphasis in all of these questions is on the "who," which really is a way of posing a larger question about the political legitimacy of

David W. Breneman is a Senior Fellow at The Brookings Institution, Washington, DC.

the system. We have relied in the past largely on private needs-analysis systems. Now the federal government, with its programs, is answering those questions in certain ways. The fact that the answers from the public and private sectors differ appeared to Marmaduke and others to be a serious source of concern.

A number of other issues were raised at Aspen. Humphrey Doerman's paper asked how we would know when access, a major federal goal, had been achieved. This prompted discussion about the optimal participation rate in higher education and when we will know that we have enough money in the system to believe we have achieved access, by some definition. There was a lot of discussion about perverse incentive effects that student aid seemed to be having on the behavior of colleges, their pricing, the courses of study they offer, and student behavior.

The publication that resulted from that conference has the resounding title of "The Coming Crisis in Student Aid." Again, it is not clear to me that a year and a half earlier such a document would have been written.

The ultimate question was whether events had so undermined the foundation of the student aid programs that, rather than having a new foundation, we really had little more than quicksand on which to operate.

Upon returning from that conference, I was faced with two weeks of jury duty in the District of Columbia courts. In between bouts of administering justice as a member of a jury panel, I had quite a bit of time on my hands, so I

wrote a brief essay for *Change* magazine entitled, "The Outlook for Student Finance," which raised some of these questions about the conceptual basis of the student aid programs. I suggested that more was needed than simply to tidy up administrative procedures. The ultimate question was whether events had so undermined the foundation of the student aid programs that, rather than having a new foundation, we really had little more than quicksand on which to operate.

Shortly thereafter, Russ Edgerton asked me to pursue that line of reasoning in a session at the AAHE conference, and I jumped at the opportunity. We agreed on three presentors, each of whom has a rather unique slant on the questions of student aid. The first paper is by Ken Deitch, an economist and senior staff member of the Sloan Commission on Government and Higher Education. The Sloan Commission was created about a year and a half ago and will soon publish a report in which student aid will be one of the central features. The second paper is by Martin Kramer, President of AAHE and a senior staff member of the Carnegie Council on Policy Studies in Higher Education. Martin was present at HEW when many of the student aid programs were created, and thus has had the opportunity to watch the development of these programs. The final paper is by Marshall (Mike) Smith, Assistant Commissioner for Policy Studies in the Office of Education, an individual who is deeply involved in developing proposals that HEW will make during the pending reauthorization.

I asked each one to do two things: first, not to limit their comments to the official views of the organizations with which they are affiliated; and second, to stay away from the nuts and bolts of student aid, but to address themselves to the fundamental questions that the experiences of the past year and a half raised most pointedly. These papers should provide both important insights into and a better understanding of the issues, problems, and prospects of federal student aid.

Why Strains on Need-Based Financial Aid Are Increasing And Some Options For Relieving Them

By Kenneth-M. Deitch

For several reasons it is an opportune time to reexamine some central features of financial aid. For one thing, the main federal grant program for undergraduates—the Basic Educational Opportunity Grant (BEOG) program—has now been with us long enough to make it appropriate to ask how well its goals are being achieved. In addition, the major legislation authorizing federal need-based aid—the Higher Education Act of 1965 and its subsequent amendments—is scheduled to be reauthorized fairly soon.

Beyond these two points there is an additional one that is more subtle, but, in an important sense, even more significant: the system of need-based financial aid is undergoing a strain so severe that a reassessment may be substantially more than an intellectual exercise. It may actually be an important element in helping the financing of students—and through them, of institutions—to go forward in as orderly a way as possible during the years to come, years which can hardly avoid being turbulent ones for higher education.

Strains on the Need-Based System

Why is the need-based system under strain? I see four causal factors:¹

The first factor is American higher education's excess capacity which, though not all-pervasive, is developing and will become widespread. The excess capacity's major cause is demographic. Following an expansion of 83 percent between 1960 and 1980, the 18-24-year-old population will decline for most of the rest of the century; between 1980 and the mid-1990s, the decline will be nearly 25 percent.

The recent closing of Windham College in Putney, Vermont, provides but one illustration of the emerging financial pressures associated largely with declining enrollment, and the story is not a pretty one. In December 1978, Windham College closed and various creditors began trying to collect their share of the \$8 million which, it was estimated, the institution owed. The library collection was attached by the Crystal Ice and Fuel Company of Brattleboro, while the Vermont National Bank took action to foreclose on two parcels of land and a house.

Kenneth M. Deitch is a Senior Member of the Research Staff of the Sloan Commission on Government and Higher Education, Cambridge, Massachusetts.

¹The section of this paper discussing the four factors comes, largely verbatim, from a portion of the current draft of a longer paper which I am preparing on price competition in American higher education.

Though Windham's story obviously has its own special features, there is reason to expect that, during the coming years, the broad outlines of that story will be repeated many times over.

The second factor creating strain is the need-based system of financial aid itself. This system is well understood as a way of helping those from below the top stratum of the income distribution to obtain higher education. In the extreme, the system sometimes helps young people from quite poor families attend colleges which are very expensive.

A more subtle feature of the need-based system is generally less well understood and, in the current context, more important: it has gone far towards removing a meaningful element of price competition from the buying and selling of higher education. This point is especially subtle because there is also truth in the often-heard assertion that price competition from the public sector is a major dilemma for the private sector. However, the point that *by definition* the need-based system removes important elements of price competition is simultaneously true. Indeed, when a group of prestigious colleges came together to form the College Scholarship Service in 1954, one of their goals was precisely to eliminate elements of price competition from the market in which undergraduate education was being bought and sold. That exclusion is simply a characteristic of a system of need-based aid.

The third factor putting need-based aid under strain is the growing public attention to pricing in higher education. This attention is acting as a catalyst to hasten change in a setting in which fundamental elements of instability—like the two just described—are already present.

At the national level a major element has been the debate over the plight of the middle class and the related conflict between the proponents of tax credits and the advocates of increased need-based financial aid, a conflict which culminated in the passage, late in 1978, of the Middle Income Student Assistance Act (MISAA). The central question being debated was whether middle-income families' strains in paying for college were greater late in the 1970s than they had been a decade earlier. In the end, the passage of MISAA and the defeat of tax credits gave the administration essentially what it had requested, but not before the entire process had propelled the issue of the cost of attending college much more prominently into the public's field of vision.

A fourth factor has recently been injected, and it increases the degree of instability. The fourth factor is the passage of MISAA itself, which establishes a second and, in the higher ranges of income, more generous schedule of parental contributions than the schedule used by the

major need-analysis services. At the very least, this state of affairs will provide financial aid officers—especially in financially hard-pressed institutions—even more temptation than they already have to abandon awarding aid on the basis of a systematic and consistent measure of need. It will tempt financial aid officers to bring price back into the arena in which institutions compete for students, just at a time when students are becoming scarce.

It is simply untenable to indicate that "need analysis" is being performed while the amount a given family is expected to pay towards the cost of college depends, willy-nilly, upon which system happens to be used to analyze its finances.

Options for Relieving the Strains

Because of the strains which these four factors, taken together, are causing for the system of need-based financial aid, I believe that the time for making some choices is rapidly approaching. One possibility, of course, is not to initiate any action directly, but merely to establish a posture of reacting on an *ad hoc* basis to whatever changes the strains bring about. One might advocate this posture with the hope that the general disorder, which now seems likely to accompany higher education's impending retrenchment, somehow fails to materialize—or that if it does appear, it somehow will avoid disrupting that sector's intricately balanced system of pricing. But there is reason to think that a more active course would be preferable. If the incentive to elect a more active course exists and can be mobilized, here is a set of options.²

The first option is to take steps to fortify the need-based system we have. The most obvious step is to discontinue having two major systems of need analysis operating side by side. It is simply untenable to indicate that "need analysis" is being performed while the amount a given family is expected to pay towards the cost of college depends, willy-nilly, upon which system happens to be used to analyze its finances. The logic of such a procedure is about as appealing as having the size of someone's grocery bill depend on which of the several check-out stations he or she happened to go through in the supermarket.

Even if the two major need-analysis formulas are consolidated, there will still be strains. Although there has been a lot of talk about regulation in higher education, I

do not believe it has often been said that we do have a system of regulated prices. While an institution's governing board—or, in the public sector, whatever is the appropriate political jurisdiction—sets the full price, the Commissioner of Education has a good deal to say about how much lower the price will be for families who do not have to pay full price from their own internal resources. In that sense the system of pricing in higher education has an important element of regulation. If we want that system to continue, it may have to be regulated more systematically and more thoroughly than it now is.

Perhaps a first step in the direction of such increased regulation would be to require that as a condition for having its students receive publicly financed financial aid, institutions make an accounting, after the fact, of the financial aid packages they actually award. The purpose would be to limit opportunities for deviance from the principles of need-based aid in a period in which institutions will face enormous temptations to abandon those principles. In this regard, it is useful to note that such an accounting was very much a part of the system of need-based aid in its earlier phases, but subsequently it has, for the most part, slipped away. If the system of need-based aid—with its implicit restraints over the pricing procedures of individual institutions—is to be preserved, then a more effective mechanism of maintaining discipline may have to be developed.

The second option—one at the opposite end of the spectrum from the first—would be to abandon, on a temporary basis, any effort to maintain need-based aid as a central ingredient of higher education's overall system of pricing, to acknowledge that need-based aid and excess capacity are largely incompatible. The strategy would be to declare a moratorium on trying to monitor this system until there is, once again, a more nearly equal balance between the forces buying and the forces selling higher education.

The third option is to take the second one a step further. Option two is to discontinue the present system because in the coming period it cannot be expected to work very well. Option three is to devise a system that does not have as a central feature charging students different prices depending upon the incomes of their parents. There are two quite different ways to pursue this strategy: with low tuition or with uniformly or almost uniformly high tuition and a very large scheme of loans.

As for low tuition, I want to emphasize that, in conjunction with efforts to make places in college widely available, it constitutes the best financial aid program of all; its expense is its only major defect. Indeed, keeping tuition low and providing ample capacity has constituted the states' main efforts to expand access, efforts they were making in a serious and sustained way long before the federal government made its relatively recent entry into the arena of financial aid.

As for a major loan program, there are many pros and cons, and I shall not review them here except to note that, in the context of the current discussion, there is one point in such a program's favor: it enables the overall system of pricing in higher education to avoid relying as heavily as it now does on price discrimination, based largely on the income of students' parents.

Needless to say, this brief paper does not solve the

²The discussion of options follows very closely, and at times comes verbatim from a presentation I made on 5 March 1979, at a seminar jointly sponsored by the New England Board of Higher Education and the New England Regional Office of the College Board. The seminar was entitled "Inflation, Higher Education and Public Policy Priorities for the 1980's" and took place in Foxboro, Massachusetts.

problems of financing either students or institutions. Its aim is to help clarify some features of the rather intricate overall system of pricing in higher education, of which the financial aid system is a crucial ingredient. If the paper provides any additional insight about the interaction between pricing and financial aid and the implications of that interaction—especially now, when the sector is facing the painful prospect of contraction—it will have served its purpose.

How Good Is the Student Financial Aid System?

By Martin Kramer

Let me be direct and take on the question, "How good or bad is the present aid system?" To answer that, you have to have a standard. Mine is what I will call "the Old-Time Religion." I call it that for three reasons:

First, the phrase suggests that the Old-Time Religion is dated. Specifically, it refers to the kind of system which would have been acclaimed in about 1965 as pretty close to ideal, but would not be so acclaimed today.

Second, the Old-Time Religion is a fairly austere standard, in which student aid benefits are measured out with some parsimony.

Third, the Old-Time Religion assumes something like original sin. It assumes that there must be constant vigilance to prevent politicians, bureaucrats, aid officers, and students from abusing the system. Integrity must be built in.

The main principles of the Old-Time Religion are four:

(1) First, fairness requires that subsidies be either universal or that they be seriously means tested. If there were enough money to offer every young person the same package of grants, guaranteed jobs and loans, and if the package were generous enough so that no serious students would be deterred from going to college, we could avoid such a means test. But we really can't afford to do this. My guess is that it would take individual grants of at least \$2,000 to avoid a situation in which students from low-income families would be deterred from attending moderate-cost private institutions. A universal grant of this amount to all students enrolled half-time or more would cost about \$10 billion. And, to be fair, it would be necessary to make that much again available for subsidies to young people who do not choose to go to college, or about \$20 billion in total. So we are left with the need for a means test to ration subsidies, and it would be unfair if such a test did not expect families to economize seriously to send children to college.

(2) The second principle of the Old-Time Religion is that family contribution, subsidies, feasible earnings, and manageable loans together should come to an amount which is adequate to meet costs—including the costs of moderately expensive private colleges. Otherwise the aid system will actually reinforce social-class stratification among institutions. This would be incompatible with any measure of equality of opportunity.

(3) The third principle of the Old-Time Religion is that any student who must rely on working or borrowing to

go to college should be assured of the availability of the job or loan he needs. If funds for subsidies—that is, grants or their equivalent—are insufficient to provide an adequate measure of equal opportunity, even if stringently means tested, then aided students should be expected to work or borrow in equal or at least consistent amounts. But if such self help is expected, then it must be made possible. Hence the system should provide jobs and loans, at least of last resort.

(4) The fourth principle of the Old-Time Religion is simplicity. Programs must be simple and fit together in simple and obvious ways. Otherwise we run three risks. There is, first, the risk that students, parents, and taxpayers will not be able to understand the system or make rational decisions on the basis of what they can expect of it. Second, there is the risk that the system will not be administrable. Complexity will distort motivations and behavior, and it will lead to ever more elaborate prohibitions to prevent such distortions. Administration will get out of hand, with far more people doing things they shouldn't do than the enforcers of the rules can deal with. Third, there are the moral hazards of complexity—the human impulse to find loopholes, and the cynicism that comes from seeing others taking what seems to be undue advantage of the rules and anomalies of the system.

You may not find this Old-Time Religion very attractive. But at least it gives us a point from which to get our bearings. Where are we? Are we moving in the direction of the Old-Time Religion or away from it?

We seem to be moving away from the Old-Time Religion toward universal entitlements, without, however, being prepared to budget enough to make universal entitlements fair.

The Student Aid System Today

The Basic Grants programs as enacted in 1972 seemed a big step toward the Old-Time Religion. It was meant to be. But the Middle Income Student Assistance Act makes the Basic Grant means test a far less serious affair. Almost 90 percent of the increment in a family's income at any income level is presumed to be preempted for things other than putting children through college. If the family

Martin Kramer is a Senior Fellow at the Carnegie Council on Policy Studies in Higher Education, Berkeley, California.

has an income between twenty and thirty thousand a year, this 90 percent seems hardly required for the necessities and decencies of life. What is it required for then? An extra vacation? More meals in restaurants? A new stereo? And what of the enormous subsidies on student loans, now granted without any means test whatsoever? We seem to be moving away from the Old-Time Religion toward universal entitlements, without, however, being prepared to budget enough to make universal entitlements fair. For there are clearly budget constraints. To save budget dollars, it seems to have been agreed to freeze indefinitely an adequate allowance of \$1,100 for the room-and-board expenses of commuter students. And grant funds which students in general can count on (except in a few states) are plainly inadequate for low-income students wanting to attend moderate-cost private colleges.

In terms of Old-Time Religion, the best that can be said of where we seem to be going is that proposals to assure loans of last resort are now being taken much more seriously than ever before. The worst that can be said is that the system is becoming ever more complex, less administrable, and more inviting of cynicism.

What I see is a very dangerous dynamic at work. There is enormous growth in the citizen constituency supporting student aid programs. But it turns out to be a constituency of those who would rather have a tax cut, and who doubt whether higher education is worth the price if it has to be paid with their own money. Again, many more institutional leaders of higher education are aware of the importance of student aid to their institutions, but many of those who are now discovering student aid for the first time are a new sort of ally. They are simply more aware than they used to be of the role of student aid in maximizing revenues, and strict means tests make this harder rather than easier.

Washington also seems to have lost sight of the equal-opportunity objectives of student aid, at least if we can judge from the Middle Income Student Assistance Act. Its preoccupation was how to guarantee that students from families with incomes of \$25,000 a year would receive grants of at least \$200. It ignored such things as the freezing of the commuter subsistence allowance at \$1,100 since 1973. In another year that will be worth about half of what it was worth then.

The Vulnerability of Aid Programs

The most ominous thing in all this is that much larger programs with much larger costs are being supported by a constituency which is much more fickle, and which has much less faith in the fairness of the system, either as a whole or in parts. That sounds like political vulnerability to me. It is one thing to defend student aid programs which are, and are seen to be a straightforward commitment to equality of opportunity. It is another thing to defend a student aid system in which benefits are apportioned according to the politics of the moment—a system about which both those who benefit and those who do not benefit are equally cynical.

The vulnerability of the programs is made even greater by risks of scandal. The more flagrant abuses of the student loan programs are now being cleaned up. But

Washington seems bent on laying the basis of a new round of student aid scandals. First, I think we will see scandals in the federal work-study program. Its antiquated allocation system has had to deliver much larger amounts of money in a period of nearly full employment. In the next year or two the audit reports will begin rolling in with florid tales of fictitious jobs and subsidized moonlighting. Second, abuse of independent-student status is likely to grow alarmingly. Anyone who can gain such status will be allowed to enjoy a "tax free" earned or unearned income of about \$3,700 and still get a full Basic Grant of \$1,800, providing him with \$5,200–\$5,500 a year for ordinary living expenses, exclusive of tuition. The temptation to contrive independent status is going to be irresistible for many families.

Given this situation, we have to ask what will happen when the going gets rough. Suppose we enter a period of serious fiscal austerity. Suppose declining real standards of living cause voters and their elected politicians to take a hard look at programs of income redistribution.

I see four scenarios:

- First, the Congress may simply hand the problem over to the Treasury and the Ways and Means Committee. This would mean total reliance on a tax-credit approach to financing students, an approach that is very hard to carry out with *both* equity and simplicity.
- Second, the social security scenario. By this I mean that an arbitrary stability might be imposed, with inflation reducing the real costs and benefits of the system. The arbitrariness of the system might become familiar and comfortable, as with social security. People would come to plan their lives around well-known facts about what the system could and could not be expected to do for them. To me, this is one of the more plausible scenarios, unattractive as it might be to any one group of policymakers.
- The third scenario is rationalization via Proposition 13. By this I mean that tax cutting might reach such a pitch that a highly vulnerable set of programs such as those of student aid might become a major target. There would then be pressure to talk about a minimum set of programs, designed with simplicity and coordination in mind, that would just barely meet equal opportunity objectives. This scenario would probably mean much greater reliance on loans and private-sector earnings and quite puritanical means tests and allowable costs schedules.
- Fourth, the Old-Time Religion could stage a revival. It has no claims to being an established religion, but it gains in attractiveness when we look at the alternatives.

Premises of Student Assistance: It Isn't Time For a New Look

By Marshall S. Smith

Efforts in the area of student assistance over the next years should move from attempting to increase the total amount of real aid to one of attempting to distribute the aid most equitably and effectively according to the needs of individuals and institutions.

Introduction

The central premise¹ of this paper is that the present federal system of student assistance is in *pretty good shape*. Breneman's concerns notwithstanding, our sense is that instead of a new look we need to consolidate and rationalize the very significant gains that have been made over the past decade and especially the past year, not re-evaluate the entire aid system.

In saying the system is in pretty good shape, we mean several things.

First, we mean that the structure of the aid system—a mix of an appropriate parental contribution, need-based grants, and self-help, through work and loans—seems to meet the American public's conception of how post-secondary education should be financed. Although a number of proposals over the past few years have challenged the notion of parental and family responsibility, they have not generated much support.²

Second, the goals of the federal assistance program are fairly clear. The focus is on providing access to students who might otherwise not be able to attend college.

Third, it appears that the programs have been successful in reaching toward this goal; the number and percentage of poor and minority students attending college have

increased dramatically over the past ten years.³ While some analysts point out that we have not established a clear causal connection between the availability of the aid and increased enrollment of lower-income and minority students, we think it is reasonable to assume such a connection and to act upon that assumption.

Fourth, and perhaps most important, federal, state, and institutional aid funds in the aggregate seem to be sufficient to insure that any qualified student could afford to attend most of the nation's institutions. However, because the aid is not equitably distributed among states and institutions, we cannot now claim that an individual student in a particular school in a given state has access to enough financial resources to finance his or her education.

If this argument is generally correct, it has a clear implication—namely that our efforts in the area of student assistance over the next years should move from attempting to increase the total amount of real aid to one of attempting to distribute the aid most equitably and effectively according to the needs of individuals and institutions. Funds need to be better targeted, our programs better coordinated, our procedures made more efficient and simple.

The following discussion documents the idea that we have enough student assistance in the aggregate to meet our goals of student access; suggests strategies that we may use for creating a more equitable distribution system at the individual and institutional level; and mentions a few of the most important problems that we face in thinking about a more rational, need-based distribution system.

Aggregate Student Assistance

Considering only undergraduates, we estimate that for the 8.7 million students enrolled at least half time, the

Marshall S. Smith is Assistant Commissioner for Policy Studies, U.S. Office of Education., Department of Health, Education, and Welfare.

¹The fundamental premise behind federal student assistance is seldom mentioned. It relates to the fact that postsecondary students are heavily favored compared to the 50 percent of the society who do not pursue postsecondary education. The papers prepared for this monograph consider strategies to ensure that the favored half of our society is protected from heavy future debt or current hardship by federal largesse, as students spend four or more years of their lives improving their life chances. The only way that a reasonably just society can rationalize this particular form of preferred treatment is through

a firm and continuing faith in the importance of higher education to both the individual and the society.

²A prime example of this statement is the Tuition Advance Fund proposal of President Silber of Boston University. In its broadest form the proposal would have shifted the entire burden to the student. Although this proposal drew considerable interest in the press, it has never been voted out of sub-committee in either the House or the Senate.

³Last fall, an estimated 1.7 million minority students were enrolled in college, while only slightly more than one-half million were enrolled in 1968. Of the minority college-age population, about 25 percent are now enrolled compared to only about 13 percent a decade ago.

The financial aid market may be oversaturated: reasonable parental contribution plus grants plus work plus loans seem to add up to more than the total price of attendance.

total national price of college attendance is roughly \$28.6 billion. This is paid by family contributions, grants, loans, and student work.

Using the uniform methodology, we estimate that a reasonable expected aggregate family contribution is roughly \$14 billion, leaving \$14.6 billion to be met from other sources. The total of grants from all sources—federal, state and institutional—is currently about \$8.8 billion, leaving an unmet aggregate balance of roughly \$5.8 billion, which must be met by work and loans.

The calculations now become more difficult because our data on loans and work are not complete. The college work-study contribution of roughly \$650 million, including the institutional match of 20 percent, lowers the balance from \$5.8 to \$5.1 or \$5.2 billion. If we look at unsubsidized work, we can make a number of different calculations. If we accept the conservative assumption from the uniform methodology, which holds that students contribute at least \$500 a year on the average from work for full-time enrollment and \$250 if enrolled part-time, we estimate a total of about \$2.9 billion, which leaves roughly \$2.0-2.5 billion that must be met by loans. We know that the federal government subsidizes over \$2.5 billion in loans from the Graduate Student Loan (GSLP) and National Direct Student Loan (NDSL) programs alone and that many additional loans come from private and institutional sources not connected to the government.

Together, these calculations suggest that the financial aid market may be oversaturated; reasonable parental contribution plus grants plus work plus loans seem to add up to more than the total price of attendance. Several things may be wrong with this analysis. Some critics, for example, would argue that we overestimate the contribution of the family. In fact, we may be underestimating what families can reasonably pay. Others would argue that we overestimate the work contribution; again, we may well be underestimating it, and in this case rather badly.

I believe these figures provide a fair basis for further calculations, for the following reasons. Regarding family contribution, the average expected contribution for a student in academic-year 1979-1980, according to the uniform methodology, is roughly \$1600. Compare this with the average cost of supporting a 17-year-old in the home. For the lowest-income families, the Department of Agriculture estimates this net cost to be roughly \$1900 for one year, and for higher-income families the cost is between \$3000 and \$4000. These data suggest that on the average, a family may pay less to send a child to college than they paid for him or her to live at home while in high school.

To justify the estimate of \$500 as a reasonable work contribution, one can think of \$500 as roughly 200 hours

of work at the minimum wage—about four hours a week during the calendar year, or, during the summer months, about \$50 dollars a week for 10 weeks. Seen this way the work contribution seems very low.

How Should Student Aid Be Distributed?

The issue of the contribution of earnings from work brings us to the problem of insuring a reasonable distribution of student assistance. It would make a great deal of sense to think of student earnings as a contribution, to be taken into account when the student's eligibility for aid is being considered. Yet our systems for estimating eligibility for grants use very different assumptions about work. A number of people have suggested more systematic strategies for looking at the work component. As these suggestions are considered, however, we must keep in mind the problems that some students (particularly inner-city youth and women) have in obtaining part-time work.

Devising a different strategy for assessing the work contribution would be one step toward making the distribution system more equitable for individuals. Other steps are also possible.

First, it is not fair that students with the same needs in different institutions receive different amounts of aid because different need-assessment systems are used in different places and for different aid programs. Why not settle on a single system?

Second, it seems unreasonable that some students have access to loans in their state or institution while others do not. In order to meet clearly unmet student needs, we should provide general access to loan funds.

Third, the campus-based funds for work and supplemental grants (SEOG) have in the past been distributed in such a way as to favor students in some institutions more than students in other institutions. Recently steps have been taken to develop a more rational approach for distributing the aid based on the aggregate need of students within the institution. These steps should be continued.

Who would argue against greater uniformity and equity in the distribution of grant and loan funds and in the calculation of family and work contributions? And it certainly would be reasonable to allocate institutional funds on the basis of the needs of the students within the institution.

Problems in Achieving a More "Rational" System

However rational, these issues are controversial. There is strong and significant debate about the best way to distribute aid more effectively and equitably among individuals. Even assuming agreement that the family should contribute some money, just how much, by what income level is not clear. After a certain point, as Breneman and others suggest, the issue transcends analysis and becomes political. Any answer to the question of how to assess need will have repercussions throughout the system—by influencing the estimate of individual need it will also influence the aggregate need of institutions.

A second drawback to redistribution on a more equitable basis is related to our earlier argument that we may have a fully saturated system. Redistribution means that some students will lose while others gain. For individuals this may not be a problem since they do not know what aid they might have had under another system. However, for classes of individuals and for institutions the problem is significant. In a time of expansion of the aid programs such a problem might be overcome; it may be feasible politically for some institutions to gain if others at least do not lose. If the aggregate aid level remains constant, however, the political problems of redistribution become very difficult.

A third problem that must be faced in thinking about a need-based distribution system for institutions has to do with our overall subsidy system for higher education. A great deal of the total cost of higher education is never charged directly to the student. The difference between the aggregate price to the student and the aggregate cost is borne primarily by state subsidies to public institutions, although endowment income and philanthropy also contribute. A system for the need-based distribution of student financial aid to institutions would depend heavily on the calculation of individual need. Since need is the difference between the price charged by the institution and what a student can pay, it is directly related to the price of the institution. Under such a system, it would make great economic sense for an institution to raise its fees and thereby gain more aid, particularly where the fees are considerably less than the cost.

Raising the fees would do two things. First, as Breneman, Robert Hartman, Chester Finn and others have argued, it might produce considerably more equity in the aid system since the rich would not be so heavily

subsidized while the poor would be protected by an increase in need-based assistance. Second, however, at least part of the tuition increase would be passed on to the federal government, because the institution's need for student assistance would be increased. This consequence puts a real crimp in thinking about an entirely need-based distribution system from the federal perspective, for it would allow the state arbitrarily to replace its own funds with federal funds.

Conclusions

Let me conclude with a simple summary. One reasonable scenario for the coming reauthorization revolves around the general premises that:

- (1) The federal commitment to student aid will be maintained.
- (2) A need-based system of family contribution, grant aid and a self-help component of work and loans will be retained.
- (3) The problem is less one of aggregate need for funds than for more efficient and equitable distribution of funds.

If these premises are accepted, then the following problems, at least, will have to be solved:

- (1) How do we construct a reasonable and uniform system for determining eligibility for assistance?
- (2) How do we insure uniform and equitable access to loan and work opportunities?
- (3) How do we deal with the political problem of redistribution in a time of fixed student-aid dollars?
- (4) How do we deal with the arbitrary substitution of federal for state monies if we allocate federal dollars on a need-based system?

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